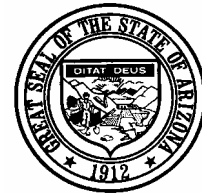


ARIZONA

TAXNEWS



Janet Napolitano, Governor

J. Elliott Hibbs, Director

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ARIZONA DEPARTMENT OF REVENUE

MISSION STATEMENT

To administer tax laws fairly and efficiently for the people of Arizona.

WE'RE ON THE WEB!

The Arizona TaxNews can be viewed on our Internet website:

www.azdor.gov

DOR TO CHANGE INTERNET WEBSITE

The department will be changing the internet site address and email addresses on October 1, 2004 to www.AZDOR.gov. The Governor's office has asked that the change be made so that all State of Arizona agencies will have addresses that end with .gov. This domain name (the .gov) is only used by government organizations and should (among other things) help our taxpayers to distinguish between us and some of the fake government sites that are actually commercial sites masquerading as government entities. Email addresses

will also change to become more consistent with the site address. AZDOR is not case sensitive. The old site and email addresses will remain functional for at least six months.

New email addresses will be first initial, last name then the @ symbol followed by AZDOR.gov

For example John Doe's address was doej@revenue.state.az.us and the new address will be jdor@AZDOR.gov

AZTaxes.gov will not be affected by this change.

2004 ARIZONA LEGISLATIVE SUMMARIES

The 2004 Legislative Summary is a brief summary of the tax-related bills that were enacted by the Arizona Legislature and approved by the Governor. Over the next few months, the *Arizona TaxNews* will feature summaries by tax type. This month: Transaction Privilege Tax and Administration. The general effective date is **August 25, 2004** unless otherwise stated. Copies of these bills can be downloaded at www.azleg.state.az.us/FinalDisposition.asp or may be requested from the Secretary of State's Office by calling (602) 542-4086.

HB 2040 (Chapter 61) 2004 Tax Corrections Act

HB 2040 makes technical, conforming and clarifying changes to Arizona tax statutes.

- Clarifies thresholds for requiring individuals to file personal income tax returns.
- The income tax credit for dependent day care services had to be claimed by January 1, 1995. Repeals this obsolete credit and removes the reference to this credit under additions to Arizona gross income.

HB 2086 (Chapter 242) Motor Vehicle Warranties; Tax Refunds

HB 2086 allows motor vehicle manufacturers who repurchase vehicles from consumers due to warranty provisions under Arizona's lemon laws

apply to DOR for a refund of sales tax if certain conditions are met.

It allows a manufacturer to apply for a refund from the Department if:

1. The manufacturer repurchases a vehicle because it is subject to the state's lemon law or for "reasons of consumer satisfaction".
2. The manufacturer refunds to the consumer the amount of tax; and
3. The manufacturer can provide the Department with "satisfactory proof" that:
 - a. Tax amounts attributed to the sale of the original vehicle were collected from the consumer; and
 - b. The manufacturer refunded the amount of tax to the consumer.

Any refund paid to the manufacturer from

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*****REMINDER*****

FOR NON-EFT TPT FILERS

To avoid a delinquency, postmark your September 2004 TPT return no later than October 25, 2004 or deliver to DOR no later than October 28, 2004.

The Tax Facts—Summary of General Fund Revenues & Individual Income Tax Receipts—are available on the department's website, www.AZDOR.gov

E-Mail Your Questions

If you have a question that you cannot find the answer to, our Technical Assistance personnel may prove useful to you. We will gladly respond to any e-mail technical tax inquiry. All inquiries will be responded to within two working days.

E-mail your question to:

TaxpayerAssistance@AZDOR.gov

In the interest of maintaining confidentiality, DOR cannot respond to inquiries that include a Social Security number, FEIN, TPT or W/H number, or other specific taxpayer identifiers.

Department of Revenue Telephone Numbers & Web Addresses

Individual & Corporate Income Tax

..... (602) 255-3381

Toll-free from

area codes 520 and 928..... (800) 352-4090

Transaction Privilege, Use, Withholding Tax, Licensing..... (602) 255-2060

Toll-free from

area codes 520 and 928..... (800) 843-7196

Hearing Impaired TDD User .. (602) 542-4021

Toll-free from

area codes 520 and 928..... (800) 397-0256

To order forms by phone (602) 542-4260

Forms by fax (602) 542-3756

Forms and instructions are also available on our website at www.AZDOR.gov

Businesses can now register, file and pay online at www.AZTaxes.gov

TAX CALENDAR

OCTOBER 2004

Due Date		For Period Ending
11	State Holiday—Columbus Day	All State Offices Closed
15	Income Tax Returns:	6/30/04
	Form 120: Corporation	
	Form 140: Individual	
	Form 141: Fiduciary	
	Form 165: Partnership	
15	Form 120: Corporation with Automatic Extension	12/31/03
15	Form 120S: S Corporation	7/31/04
15	Form 99: Exempt Organization Annual Information Return	
	Form 99T: Exempt Organization	5/31/04
15	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	6/30/05
	Second Installment	4/30/05
	Third Installment	1/31/05
	Fourth Installment	10/31/04
20	Form TPT-1: Transaction Privilege Tax: September Monthly & Quarterly Filers	9/30/04
20	Bingo: Financial Reports	9/30/04
20	Luxury Tax: Various Forms	9/30/04
25	EFT Form TPT-1 and Payment: Transaction Privilege Tax: September Monthly Filers	9/30/04
Nov. 1	Withholding Tax: Form A1-QRT	9/30/04

Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The *Arizona TaxNews* is a publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in an alternative format upon request. Subscription information may be obtained from the Publications Unit at 602-716-6797 or toll free from area codes 520 & 928, 1-877-863-0655.

2004 Legislation

(Continued from page 1)

these provisions is in lieu of a refund on the vehicle that the dealer would otherwise be entitled to receive.

HB 2277 (Chapter 318) Water Supply; Replenishment; Conservation

Other than making numerous changes to the Central Arizona Water Conservation District and the Central Arizona Groundwater Replenishment District statutes, HB 2277 exempts the acquisition of electricity or other forms of energy by the CAWCD to pump CAP water, from transaction privilege tax and use tax retroactive to January 1, 1985 (Section 13 of the Bill.).

HB 2459 (Chapter 143) Auto Dealers; Taxation; Lease Payments

HB 2459 adds a deduction under the personal property rental classification for income received by a motor vehicle dealer for the first month's payment on the lease of the motor vehicle if the lease and payment is assigned to a third party leasing company.

HB 2460 (Chapter 296) Registration; Motor Vehicles; Nonresidents

This legislation expands the MVD's 30-Day Nonresident Registration Permit certificates to require a nonresident motor vehicle purchaser to affirm that the vehicle is to be registered in another state within 30 days. If the purchaser registers the vehicle in Arizona

within 365 days, the purchaser will be liable for any state transaction privilege tax, county excise tax, penalties and interest that the motor vehicle dealer would have been required to pay. (Any full or partial exemptions from the transaction privilege tax will be negated in this event.) An amendment to the Retail Classification in the transaction privilege tax statutes allows a resident from a state which provides "reciprocity" with Arizona to purchase a motor vehicle and have the transaction privilege tax imposed on the sale equivalent to the tax rate of the purchaser's state. The bill does not affect the transaction privilege tax exemption for motor vehicles sold to nonresidents and delivered out-of-state, but these nonresident purchasers are subject to the penalty provision above if the vehicle is registered in Arizona within 365 days.

HB 2549 (Chapter 326) Healthy Forests; Tax Credits

An emergency measure that allows a Healthy Forest Enterprise Assistance Program to be established and provides transaction privilege (TPT), use and income tax incentives for qualified businesses until 2014 and allows the state to contract for electrical energy produced from biomass resources. The bill also authorizes cities, towns and counties to adopt and

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NORTH VALLEY OFFICE CLOSURE

The North Valley Office located at 2902 W Agua Fria Freeway, Suite 1020, Phoenix AZ, permanently closed on August 31, 2004. If you need further assistance, please visit our website at www.AZDOR.gov, call one of the telephone numbers listed on page 2, or visit the main office (1600 W Monroe, Phoenix) or one of the satellite offices: 3191 N Washington, Chandler or 400 W Congress, Tucson. Please drop off your payment at our main office, or submit electronically at www.AZTaxes.gov.

NEW PROCEDURE ISSUED

One new procedure was recently issued by the department. It can be found on the department's website, www.revenue.state.az.us

- Arizona Transaction Privilege Tax Procedure, TPP 04-2, Procedure for Requesting Refunds Under Laws 2004, Chapter 242, 46th Legislature, Second Regular Session. This pertains to prime contracting and architectural or engineering services.

Arizona



www.AZTaxes.gov

YOU CAN STILL E-FILE YOUR 2003 INCOME TAX RETURNS

If you filed an extension for your 2003 income tax return(s), you can still e-file with the IRS and the Department of Revenue. Both agencies will be accepting e-filed returns through October 15, 2004.

The 2004 filing season will begin January 15, 2005.

2004 Legislation

(Continued from page 3)

periodically revise an urban-wildland interface code, makes the State Forester a position separate from the State Land Commissioner, establishes the State Urban-Wildland Fire Safety Committee and requires that the State Forester identify pilot programs to promote forest health.

This act is an emergency measure that is necessary to preserve the public peace, health or safety and is operative immediately as provided by law.

Approved By The Governor June 3, 2004.

SB 1001 (Chapter 240) Fertilizer Transport; Transaction Privilege Tax

SB 1001 provides an exemption from tax under the transaction privilege tax for the income received by a railroad for the transportation of fertilizer from one point in Arizona to another point in Arizona.

This provision is effective from and after September 30, 2004.

SB 1095 (Chapter 305) Teratogen Information Program; Funding; Tax

A small portion of the telecommunications services excise taxes applicable to telecommunications service providers is diverted to fund the Teratogen Information Program, which was established as part of the state Poison Control System under ARS 36-1162.

(Teratogen is defined as a physical, infectious or chemical agent that causes a change in the normal development of a human embryo or fetus.)

The .69% excise tax rate for funding certain telecommunications devices for the impaired is reduced by .01% to .68%.

The .01% reduction will now fund the Teratogen Information Program, making the combined rate the same as before.

This provision applies retroactively to taxable periods beginning from and after June 30, 2004.

SB 1141 (Chapter 234) Preexisting Transactions; Sales Tax

SB 1141 provides that when a state transaction privilege tax rate increase takes effect for written business contracts, other than prime contracts, that the new tax rate increase would not apply until 120 days after the effective date of the rate increase. Other provisions of the bill specify that:

- This does not apply to any taxpayer that has entered into a contract that contains a provision that entitles the taxpayer to recover the increased tax amount from the purchaser.
- These changes apply regardless of the accounting method used by the taxpayer.
- This section does not apply to any rate increases for

county excise taxes.

SB 1288 (Chapter 337) Bundled Telecommunications Services

Arizona Revised Statutes § 42-5064 imposes transaction privilege tax on the business of providing intrastate telecommunications services. As such, telecommunications businesses must separately show gross income derived from nontaxable interstate calls and other income excluded or exempted from tax in books and records kept in the ordinary course of business.

SB 1288:

- Adds a new methodology for how such businesses can reasonably identify nontaxable charges on bundled transactions, which are sales of both taxable and nontaxable services where the business charges a customer a flat “bundled” rate for all the services.
- Allows a business to elect to use *allocation percentages* derived from its entire service area instead of itemizing for individual calls.
- Allows DOR to request the allocation information and an audit may be performed.
- The telecommunications service provider must waive all rights to a refund on taxes if the taxes were based on the allocation percentage deemed reasonable at the beginning of the tax year at issue.

SB 1293 (Chapter 309) Design-Build Contracts; Prime Contracting

SB 1293 provides for an exclusion of actual direct costs of providing architectural or engineering services that are incorporated into a contract. The bill has a definition for the term “direct costs” and contains a retroactivity clause that provides that any refunds are limited to a total of \$100,000. Claims for refunds must be submitted to DOR by December 31, 2004 and:

- The burden of proof is on the taxpayer to establish evidence to qualify for the refund,
- DOR will notify taxpayers of their determination and amount of refund,
- Contains a clause stating the no severability of refund provisions.

SB 1174 (Chapter 249) Use Fuel Refunds; Use Taxes

SB 1174 requires the Arizona Department of Transportation (ADOT) to collect the use tax on use fuel imposed under Title 42, Chapter 5, Article 4 at the time of the submission of a claim for a refund of use fuel taxes paid to ADOT. ADOT is required to not pay the refund until it determines the difference between the amount of the refund and the amount of the Arizona use tax. ADOT is to deposit the use tax revenues collected to the state treasurer for credit to the state general fund

(Continued on page 5)

REGISTER TO USE AZTAXES.GOV

Join the thousands of Arizona businesses who save time, money, and aggravation by E-filing their returns on www.AZTaxes.gov.

www.AZTaxes.gov can be used to register businesses, file Transaction Privilege Tax, Use Tax, and Withholding Tax returns, make payments, and maintain accounts online. Registration is fast and easy. Since January, nearly 10,000 people have registered to use the site and are taking advantage of its capabilities. You can take a tour of the site or peruse the FAQs without needing a PIN and Password. Log on today and see what AZTaxes.gov can do for you and your business.

How easy is it to file using www.AZTaxes.gov?

Just log in to the site, choose the filing option, and enter your sales or withholding data. The website makes the calculations and gives you a confirmation when the transaction is submitted. It's that easy.... no postage costs or processing related errors!

www.AZTaxes.gov: Your door to DOR!

2004 Legislation

(Continued from page 4)

monthly and is to notify ADOR of the amount of use tax collected each month.

If the amount of the refund is less than the amount owed for the use tax, then ADOT is to forward any balance due information to the Arizona Department of Revenue for collection purposes.

This act applies to taxable years beginning from and after December 31, 2004.

ADMINISTRATION

SB 1274 (Chapter 83) Taxpayer Bill of Rights; Amnesty

SB 1274 makes modifications to the taxpayer bill of rights and clarifies the right of appeal for the tax amnesty program.

With certain prescribed exceptions, DOR has two years from date of initial audit contact to issue a final audit (notice of proposed assessment or proposed overpayment). A final audit (notice of proposed assessment or denial of refund claim) must include the statutory, regulatory and judicial bases for any adjustments made.

These provisions apply retroactively to audits beginning on or after January 1, 2004.

Applications for the tax amnesty program that expired Oct. 31, 2003, are an express waiver of the right to appeal the matters under the amnesty application for the period for which the application was made; taxpayers retain appeal rights on additional tax assessed via a subsequent audit of the period for which the application was made.

This provision is effective retroactively to September 18, 2003.

HB 2225 (Chapter 161) Probation Absconders; Taxpayer Information

DOR must provide the court with the home address and any additional taxpayer ID numbers used by a taxpayer whose debt is referred for setoff and who is identified by the court as a probation absconder.

HB 2346 (Chapter 70) Spousal Maintenance; Taxpayer Information

Spousal maintenance obligations are included in the list of "overdue support" debts for which a taxpayer's income tax refund may be redirected to fulfill. HB 2346 requires DOR to notify the court if a match is made with a taxpayer who has an overdue debt for spousal maintenance.

HB 2382 (Chapter 139) Social Security Numbers; Government Use

HB 2382 limits the government use of complete Social Security numbers to the Arizona Department of Revenue, the Industrial Commission of Arizona or a law enforcement agency of this state, county, city or town. Additionally, HB 2382 allows an agency of this state or county, city, town, or other political subdivisions of this state to disseminate or use the last four numbers of an individual's Social Security Number.

SB 1361 (Chapter 84) Tax Disputes; Burden of Proof

SB 1361 creates a new section 42-1255 stating that DOR has the burden of proof in any administrative as well as judicial proceeding regarding any factual issue that is relevant to ascertaining the tax liability of a taxpayer, provided the taxpayer has cooperated and kept proper records. The new section 42-1255 replaces a subsection under which DOR had the burden of proof only in court proceedings.

NEW E-SERVICE REVOLUTIONIZES TRANSCRIPT DELIVERY

IR-2004-114, Sept. 9, 2004

WASHINGTON — Tax practitioners can now request transcripts of their client's tax records and receive them within minutes instead of days or weeks using a new online tool delivered through the IRS Business Systems Modernization program. The Transcript Delivery System (TDS) is the latest in a series of e-services that are revolutionizing how tax practitioners work with the Internal Revenue Service on behalf of their clients.

Authorized tax practitioners use the new electronic tool to order tax account and tax return transcripts and other tax information for their business and individual clients. The documents are returned to the practitioner's computer through a secure online connection within minutes. Paper requests for the same information can take days or weeks to complete.

"This important new technology will help tax practitioners improve their services to taxpayers and is part of our continuing efforts to modernize the IRS," said IRS Commissioner Mark W. Everson.

Tax practitioners use transcripts when representing their clients before the IRS. Transcripts are printouts of a taxpayer's account that show actions taken by the IRS or the taxpayer and any tax, penalties or interest

assessed. Tax returns can also be printed as transcripts to show most of the numbers reported on the return and those from accompanying schedules or forms. In many cases, transcripts are used instead of making copies of tax returns.

TDS is one of three premium e-services the IRS has developed for practitioners who have successfully e-filed 100 or more individual tax returns and registered to use e-services. The other premium e-services, Disclosure Authorization and Electronic Account Resolution, were released in July.

"TDS is the greatest thing since sliced bread," says enrolled agent Larry "Denny" Denman, a North Las Vegas tax practitioner who uses TDS and other IRS e-services. "I requested eight years of transcripts for one client and printed them out in no time. And the quality is better than anything I get through the mail or by fax."

The Transcript Delivery System is the final product in a line of e-services developed through the Business Systems Modernization program in partnership with the PRIME Alliance group of contractors led by Computer Sciences Corporation.

Links on IRS.gov:

What are the e-services products?

IRS EXTENDS TIP COMPLIANCE AGREEMENT PROGRAM

IR-2004-117, Sept. 16, 2004

WASHINGTON — The Internal Revenue Service announced today it is indefinitely extending its Tip Rate Determination and Education Program, a voluntary compliance tool that has helped nearly double the reporting of tip income.

Originally developed by the IRS in 1993 for the food and beverage industry, the tip program was set to expire in 2005. Now, the successful program will continue without a sunset date.

"The tip program has proven to be a winner for employers, employees and the IRS. It reduces taxpayer burden and increases compliance. We hope more industries and employees will take advantage of this creative tool," said Mark W. Everson, IRS Commissioner.

Since the program was introduced, voluntary compliance has significantly increased. In 1995, tip wages reported were \$9.45 billion. For 2003, the amount exceeded \$18 billion. To date over 15,000 employers have entered into tip agreements, representing nearly 47,000 individual establishments.

The tip program offers employers multiple voluntary agreement options designed to provide non-burdensome methods for employers and employees to comply with tip reporting laws. Options include:

- Tip Rate Determination Agreement (TRDA);
- Tip Reporting Alternative Commitment (TRAC);
- EmTRAC – Employer-designed TRAC.

The tip agreements have common elements including:

- Education – To help employers and employees better understand the federal tax laws regarding tips;
- Simplification – To make it easier for tipped employees to calculate their tips, report their tips and pay their taxes;
- Burden Reduction – To reduce the likelihood of and to ease the financial burdens associated with a tip examination.

With the indefinite extension of the tip program, the IRS will administer existing tip agreements without the need for employers to re-sign agreements.

Your company does not have to be a Fortune 500 company to offer a pension plan to your employees.

Any small business owner may choose to set up a retirement plan for its employees from a simple IRA plan to a 401(k), profit sharing, SEP or defined benefit plan. Each plan is unique and has specific contribution requirements that benefit both the participant and the employer.

Many of the plans have key advantages for both the employer and employee. As an employer, you have an important role to play in helping America's workers save more than ever before.

There are so many advantages. For the employer and employee, there are significant tax incentives, benefits are a definite morale booster for employees, benefits

PENSION PLANS AVAILABLE

attract and retain higher quality employees and there is a personal incentive for the business owner--- a retirement plan increases your own retirement savings.

The U.S. Department of Labor's, Employee Benefits Security Administration, Los Angeles Regional office is located in Pasadena. The Department oversees the management of pension, health and certain other benefit plans sponsored by private-sector employers. Our office has three functions: enforcement, education, and outreach. You may contact us through the call center (1-866-444-EBSA). If you would like more information on the various options that are available to you as a small business owner please do not hesitate to contact us or join us at our next outreach session in December with the Department of Revenue.

OCTOBER WORKSHOPS

For a complete listing of workshops or more information, please call 602-716-7810 or email

Community Outreach & Education at
seminars@AZDOR.gov

All classes cost \$15 per person.

Retail Workshops

This workshop is designed to help you understand the Retail Classification under the Transaction Privilege Tax that is imposed in our state.

Avondale—October 12, 8:30 am—noon,
City Council Chambers, 11465 W Civic Center Dr.

Chandler—October 5, 8:30 am – noon
Department of Revenue, 3191 N Washington

Chandler—October 27, 8:30 am – noon
Department of Revenue, 3191 N Washington

Glendale—October 19, 8:30 am—noon,
Quality Inn, 5511 W Bell Rd.

Phoenix—October 18, 8:30 am—noon,
Industrial Commission, 800 W Washington

Phoenix—October 28, 8:30 am—noon, Dept. of
Revenue, 1600 W Monroe, B1 conference room

Tucson—October 14, 8:30 am—noon,
Arizona Gov't Office, 400 W Congress, Rm. 158

Tucson—October 28, 8:30 am—noon,
Arizona Gov't Office, 400 W Congress, Rm. 158

Construction Industry Workshops

This workshop is designed to help those in the construction industry understand the transaction privilege tax requirements.

Avondale—October 13, 8:30 am—noon,
City Council Chambers, 11465 W Civic Center Dr.

Chandler—October 6, 8:30 am – noon,
Department of Revenue, 3191 N Washington

Chandler—October 28, 8:30 am – noon,
Department of Revenue, 3191 N Washington

Glendale—October 20, 8:30 am—noon,
Quality Inn, 5511 W Bell Rd.

Payson—October 14, 8:30 am—noon, Gila
Community College, 201 N Mud Spring Rd., Rm. 301

Phoenix—October 5, 8:30 am—noon, AZ Small
Business Association, 4130 E Van Buren, Ste. 150

Phoenix—October 25, 8:30 am—noon,
Industrial Commission, 800 W Washington

Phoenix—October 27, 8:30 am—noon, Dept. of
Revenue, 1600 W Monroe, B1 conference room

Tucson—October 13, 8:30 am—noon,
Arizona Gov't Office, 400 W Congress, Rm. 158

Tucson—October 27, 8:30 am—noon,
Arizona Gov't Office, 400 W Congress, Rm. 158



2004 ARIZONA TAXTALK

Tax Talk 2004 will be one full day and up to 9 hours of continuing professional education (CPE) credit is available. You will receive a wide variety of tax updates and general tax knowledge from informative presenters. This conference is a result of partnering initiatives with Arizona Forum for the Improvement of Taxation (AFIT), the Arizona Department of Revenue, and the Internal Revenue Service. The cost of this conference will be \$95 per person which includes continental breakfast, lunch and afternoon snacks, all handouts, Arizona Booklet X, and the department's tax forms CD.

Dates scheduled are:

- December 6 - Sheraton Phoenix Airport, 1600 S 52nd St., Tempe.
- December 8 - Pueblo Inn, 350 S Freeway, Tucson.
- December 10 - Glendale Civic Center, 5750 W Glenn Dr., Glendale.

More information will be available soon. Please check the website at www.AZDOR.gov or email at seminars@AZDOR.gov or call 602-716-7810 or toll free from area codes 520 & 928, 1-877-863-0655 for registration information.